

A Conversation with Robert Bates

State Building: Failing, Failed and Fragile States

USAID, Point Four Conference Room

June 6, 2003

12:30pm-2:00pm

Executive Summary

On June 6, PPC hosted Dr. Robert Bates, Eaton Professor of the Science of Government at Harvard University, for a discussion of the paradoxes and challenges of state building. The relationship between political violence and prosperity is central to his analysis. Using game theory, extensive field experience in Africa and historical empirical evidence, Dr. Bates argued that:

- In societies without states, there is a tradeoff between prosperity and violence. The alternative equilibria are: peace and poverty; prosperity and violence.
- The state represents the centralization of coercion and monopoly over the use of force. As such, violence/warriors are at the core of the state. Ideally, the state overcomes the tradeoff between prosperity and violence.
- The Weingast Paradox highlights the dilemma of a strong state: one in which the government is strong enough to protect property, but is also strong enough to take it away. Governments will refrain from predating only if private citizens pay adequate taxes and refrain from raiding one another. People will refrain from predating only if the government insures physical security and does not charge unacceptable taxes.
- USAID should explore ways to help create incentives for governments to create wealth rather than steal it.
- Two conditions are required for the establishment of political order: (1) people must pay adequate taxes to support the functions of government and (2) the government must have a long-term time horizon.
- The possibility of elections increases the probability that private armies will be formed, increasing violence and political predation.
- The initial transition to democracy is a difficult challenge, but if overcome, society can enjoy greater prosperity and less violence in the long run.
- Electoral competition, once established, can ensure public accountability, lower corruption and ensure better public policies.

Introduction

On June 6, PPC invited Dr. Robert Bates to discuss the challenges of state building, particularly in Africa where fragile and failing states abound. First, he discussed the nature of societies without organized state governments. Second, he analyzed the effects of adding a central government to those societies. Then, he examined the incentives

needed to maintain a productive state government system. Finally, Dr. Bates issued a caveat about the transition from a state vacuum to democracy.

I. World without States

Dr. Bates began with the observation that in a country without an effective state, there is a tradeoff between prosperity and violence. In Africa, for example, increases in economic growth have led to an escalation of violence. In general, when a state does not exist, economic growth produces increased private violence. Citizens must privately provide for their own protection either by arming themselves or hiring security. For example, in feudalism, people traded economic goods for protection.

In a society without a state, individuals can choose between work, arming themselves and leisure. In this environment there are only two ways to produce income—either through work or from stealing others' goods. Therefore, in order for a society without a state to be peaceful, it must be poor. Where wealth exists, others will want to steal it, forcing people to arm themselves to protect their property.

II. World with States: Adding Government

Dr. Bates then introduced government (G) to his failed state model. G is the centralization of coercion headed by a specialist in violence. G does not work for a living, but acquires wealth either from predation or from tax revenues (being paid not to steal). Herein lies the “Weingast Paradox”: G is strong enough to protect property rights but is also strong enough to take them away.

Dr. Bates posed the question: *Can USAID help create incentives so that a powerful actor (G) will use its power productively—to nurture the creation of wealth for others instead of extorting it?* What would these incentives look like? In a positive equilibrium, people would refrain from raiding each other because the government provides security. In turn, the government would refrain from predating as long as it receives adequate tax revenue and the people defer to the state for order and security. The main property of this political order equilibrium is that people can work, increasing production and providing prosperity. However, Dr. Bates warns, two conditions are essential to sustain this equilibrium. First, tax revenues are bounded from above *and* below. If tax rates are too high, then private agents will find it cheaper to find private protection (and thus raid others). If tax rates are too low, then there will be insufficient revenue for the government to function effectively. Second, the government must feel secure and trust in a long time horizon of the system. The government's well-being must be linked to the system it supports.

At this point, society has exited the prosperity-violence tradeoff. Peace and prosperity are possible simultaneously. Empirical evidence in 46 African states over 26 years strongly

supports this. In the African countries where tax rates were between 10 and 50 percent of GDP, there was a low probability of citizens seeking out private protection.¹

III. Taming the State through Competition

Citizens try to discipline the state to reduce government predation. Elections are one means to do so. However, Bates' empirical data also shows that the prospect of elections increased the probability of private armament and state corruption. Dr. Bates' theorized that elections lead to political predation because a government's future power is no longer secure.

The question arises: *Are there additional incentives that reduce the occurrence of government abuse?* Bates argued for introducing accountability based on the classic principle-agent model. In the model, citizens discipline the government through elections so that it refrains from predating and adopts public policies that are beneficial to the people. Citizens do this by naming a reservation price (i.e. economy remains above a certain point). If the government fails to deliver the reservation price, then the government is replaced. Therefore, the government will strive to manage the state effectively above the reservation price.

Dr. Bates maintained that historical data supports the claim that, over the long run, electoral competition can ensure public accountability, lower corruption and ensure better public policies. However, a state capable of establishing political order is absolutely essential to development. This has to be solved first.

IV. Final Caveat: Difficult Transition

Dr. Bates highlighted the radically different impact of electoral competition at different stages of development. He cited evidence that showed the increase in violence when elections are introduced. If a society can move beyond this violent phase in which politics is a zero-sum game, then it will enjoy greater prosperity and less violence in the long run.

¹ Bates took issue with Paul Collier's greed and grievance hypothesis, arguing that natural resource looting is not a cause of conflict but rather is emblematic of state break-down.

Discussion

A variety of questions and issues were raised during the discussion session. Among them,

- The term *state failure* is a “kitchen sink”—it must be disaggregated. Indicators of a failing state include:
 - When the military goes off budget and pays itself.
 - When the government does not pay civil servants.
 - When people start contracting out for private security.
 - The best indicator of a failing state is when refugees flee the region (people voting with their feet).
- External donors such as USAID must maintain a presence much longer and support the work of autonomous civic leaders in a state where the government otherwise monopolizes public space.
- Historically, governments became interested in development because they needed more money to finance military, civil servants, etc. Foreign transfers may break the link between domestic investors (and private preferences) and government (public policy) accountability. Governments are no longer dependent on domestic revenue and domestic support for financing.
- In states with natural endowments (i.e. oil), there is no need for tax revenues from the people. Therefore, there is no need to be democratic. The oil states are a good example.
- In developing countries, a fundamental tension exists between state competence and state strength. In many, the center became the font of authority and privilege. Decentralization and markets reduce the authority of the state, sometimes with unintended consequences.